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Exhibit Number : DRA-05
Commissioner : Sandoval
ALJ : Wilson
Witness : Mariana Campbell



**DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Report on the Results of Operations
for
Bear Valley Electric Service Division
General Rate Case
Test Year 2013**

Administrative and General Expenses

San Francisco, California
July 27, 2012

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1 **BEAR VALLEY ELECTRIC SERVICE DIVISION**
2 **ADMINISTRATIVE AND GENERAL EXPENSES**

3 **I. INTRODUCTION**

4 This exhibit presents the Division of Ratepayer Advocates' (DRA) analyses
5 and recommendations regarding Bear Valley Electric Service Division's (BVES)
6 direct Administrative and General (A&G) expenses for Test Year (TY) 2013. BVES
7 is a division of the Golden State Water Company (GSWC). This exhibit also
8 presents DRA's analyses and recommendations regarding the GSWC A&G
9 expenses allocated to BVES from the General Office for the TY 2013.

10 The categories of A&G expenses cover general expenses that support all
11 functions of BVES and are recorded in the Federal Energy Regulatory Commission
12 (FERC) Uniform System of Accounts, numbers 920 through 935. Many items
13 comprise A&G expenses, including: administrative and general salaries; office
14 supplies; outside services; injuries & damages; employee pension & benefits;
15 regulatory expenses; and all other administrative and general expenses such as
16 general advertising, miscellaneous general expense and maintenance of general
17 plant. BVES reported and separated expenses into main categories in this
18 application. BVES reported the following administrative and general expense
19 categories by labor and non-labor costs:

- 20 • Internal Staff: Account 920 Administrative & General Labor.
- 21 • Office Supplies: Account 921
- 22 • External Staff: Account 923 Outside Services and Account 928
23 Regulatory Expenses.
- 24 • Injuries and Damages: Account 925
- 25 • Employee Pension & Benefits: Account 926
- 26 • All Other Accounts: Account 930 General Advertising, Account 931
27 Miscellaneous General Expense, and Account 935 Maintenance of
28 General Plant.

29 DRA discusses each FERC Account within each of the categories.

1 **II. SUMMARY OF RECOMMENDATIONS**

2 Tables 5-1 to 5-17 compare DRA's recommendations with BVES's proposed
3 direct A&G expense estimates for TY2013:

4 The following summarizes DRA's recommendations for TY2013:

- 5 • For FERC Account 920, DRA recommends a forecast of \$1,141,238,
6 which is \$239,211 less than BVES's request.
- 7 • For FERC Account 921, DRA recommends a forecast of \$243,579,
8 which is \$99,333 less than BVES's request.
- 9 • For FERC Account 923, DRA does not take issue with BVES' forecast
10 of \$1,019,077.
- 11 • For FERC Account 925, DRA does not take issue with BVES' forecast.
- 12 • For FERC Account 926, DRA recommends a forecast of \$1,705,251
13 which is \$366,976 less than BVES's request.
- 14 • For FERC Account 928, DRA recommends a forecast of \$292,756,
15 which is \$292,744 less than BVES's request.
- 16 • DRA does not take issue with BVES's forecast of A&G expenses for All
17 Other Accounts.

18

Table 5-1 compares DRA's recommended with BVES's proposed A&G expense estimates, for TY2013:

Table 5-1
2013 Direct A&G Expenses
(in Nominal Dollars)

Description (a)	DRA Recommended (b)	BVES Proposed ¹ (c)	Amount BVES>DRA (d=c-b)	Percentage BVES>DRA (e=d/b)
FERC Acct 920	\$1,141,238	\$1,380,449	\$239,211	21%
FERC Acct 921	\$243,579	\$342,912	\$99,333	41%
FERC Acct 923	\$1,019,077	\$1,019,077	\$0	0%
FERC Acct 928	\$292,756	\$585,500	\$292,744	100%
FERC Acct 925	\$205,723	205,723	\$0	0%
FERC Acct 926	\$1,705,251	2,072,227	\$366,976	22%
Third Category – All Other Accounts	\$25,009	\$25,009	\$0	0%
Total	\$4,632,633	\$5,630,897	\$998,264	22%

III. DISCUSSION/ANALYSIS OF DIRECT ADMINISTRATIVE AND GENERAL EXPENSES

DRA conducted an independent analysis of BVES' A&G expense estimates for the BVES Office (BVO) located in the City of Big Bear Lake. DRA analyzed BVES' application and exhibits, supporting work-papers, and spoke with BVES' regulatory consultants and witnesses handling this general rate case to discuss work-papers and questions pertinent to specific work-papers, data requests and responses, e-mails and telephone conversations.

BVES provided five years of historical data (2006 through 2010) as well as projections for the years 2013 through 2016 for each FERC Account discussed below. In response to DRA discovery requests, BVES provided 2011 recorded data for A&G expenses.²

¹ Ex. No.BVES-____, Vol 2, Chapter 6, p. 68, Table 6D

² Response to DRA-012-JRW, April 12, 2012

1 **A. Overview of BVES's Forecasting Methodology**

2 In many instances, for labor and non-labor categories, BVES arrived at its TY
3 2013 forecasts by applying an average from 2006 to 2010, stated in 2010 dollars,
4 and then used the average amount as a base to calculate the forecasts from 2011 to
5 2016. In some instances, BVES relied on trending or forecasted incremental costs
6 above that base which are beyond escalation. BVES then applied the Non-IBEW³
7 labor escalation rates to the forecasted values to convert them into nominal dollars
8 for the years 2011 to 2016.⁴

9 **B. FERC Account 920 - Administrative and General Labor**

10 FERC Account 920 expenses are comprised essentially of internal staffing
11 administrative salaries. BVES' estimate for Test Year 2013 of \$1,380,449 is
12 \$239,211 higher than DRA's forecast of \$1,141,238. The difference between the
13 forecasted expense levels of DRA and BVES is due to more current information
14 which BVES provided regarding its 2011 expenses for administration and general
15 salaries.

16 BVES stated: "BVES is not requesting any staff level increase in A&G.
17 Between 2010 and 2012, BVES added the eight (8) positions authorized by the
18 Commission in the prior GRC."⁵

19 Table 5-2 shows BVES' recorded 2006-2011 level for FERC Account 920
20 expenses.

21

³ International Brotherhood of Electrical Workers.

⁴ Ex. No. BVES-____, Vol.2, Chapter 6, p.69

⁵ Ex. No. BVES-____, Vol.2, Chapter 6, p.68

Table 5-2
2006-2011 Recorded Data for A&G FERC Account 920
(in Nominal Dollars)

Description	2006	2007	2008	2009	2010	2011 ⁶
Total Salaries	\$496,836	\$678,883	\$675,628	\$682,730	\$819,593	\$1,103,408

Source: 2006-2010 data from Bear Valley Electric Service GRC Workpapers, Support to Vol 2, Results of Operations Chapter 6, Page 68

Table 5-3 shows BVES' 2011-2013 forecast and DRA's 2013 forecast for FERC Account 920 expenses. BVES arrived at its Test Year 2013 forecast by escalating its estimated 2012 expenses.

Table 5-3
2011 - 2013 BVES and DRA's Forecast for FERC Account 920

Description	2011	2012	2013
BVES ⁷	\$1,232,955	\$1,354,710	\$1,380,449
DRA	-	-	\$1,141,238

DRA's administration and salaries forecast for the Test Year is lower than BVES's forecast by \$239,211. BVES provided the actual 2011 recorded amounts on April 12, 2012.⁸ DRA forecasts \$1,141,238 in 2013 for FERC Account 920. DRA used the 2011 recorded expense level of \$1,103,408 as the starting point for its test year estimate and escalated that to 2013.

BVES asserts that additional staff is not necessary or requested in this general rate case. Considering that BVES has added the eight (8) positions authorized by the Commission, using the most recent 2011 expense level is a reasonable approach to estimate FERC Account 920. It should be noted that the 2011 expense level of \$1.1 million, the starting point for DRA's forecast, is higher than the prior 4 years from 2006-2010 (see Table 5-2). The 2011 figure which DRA uses as a basis for its forecast is over double the recorded 2006 figure. This

⁶ Response to DRA-012-JRW, April 12, 2012

⁷ Ex. No. BVES-____, Vol. 2, Chapter 6, p. 68, Table 6D

⁸ Response to DRA-012-JRW, April 12, 2012

represents sufficient funding for the test year. DRA's recommendation is a reasonable TY estimate for FERC Account 920 and should be adopted.

C. FERC Account 921 Office Supplies

Table 5-4 shows BVES' recorded data for FERC Account 921 for 2006 through 2011.

Table 5-4
2006-2011 Recorded Data for A&G FERC Account 921
(in Nominal Dollars)

Description	2006	2007	2008	2009	2010	2011 ⁹
Total Office Supplies	\$177,600	\$197,556	\$214,696	\$227,646	\$279,399	\$143,350

Source: 2006-2010 data from Bear Valley Electric Service GRC Workpapers, Support to Vol 2, Results of Operations Chapter 6, Page 68

Table 5-5 compares DRA's recommended to BVES' requested amount for TY 2013 in FERC Account 921.

Table 5-5
2013 DRA and BVES Forecast for FERC Account 921
(in Nominal Dollars)

Description	2013
DRA	\$243,579
BVES	\$342,912
BVES>DRA	\$99,333

FERC Account 921 expenses include labor and non-labor costs associated with BVES' office supplies expenses. For both labor and non-labor costs, BVES used the same methodology to arrive at its TY 2013 forecast. BVES forecasted a total of \$342,912 for Labor and Non-labor costs for FERC Account 921¹⁰ (\$6,267 Labor and \$336,646 Non-labor).

⁹ Response to DRA-012-JRW, April 12, 2012

¹⁰ Ex. No. BVES-____, Vol. 2, Chapter 6, p. 68, Table 6D.

1 BVES arrived at its forecast by averaging the costs from 2006 to 2010, stated
2 in 2010 dollars, and then "... applied [that average amount] to the forecast from 2011
3 to 2016."¹¹ BVES applied the Non-IBEW labor escalation rates to the forecasted
4 values to convert them in nominal dollars for the years 2011 to 2016. BVES'
5 forecast takes into consideration replacement of vehicle costs¹², and to support the
6 additional A&G employees authorized by the Commission in the 2009 GRC, hired
7 during 2010-2012.

8 DRA forecasts a total of \$243,579 for FERC Account 921, of which \$6,267 is
9 for Labor and \$237,312 for Non-labor. DRA based its Test Year 2013 forecast on a
10 five year average from 2006-2010. DRA did not include the purchase of vehicles as
11 an incremental cost above its 5-year average of expenses because the purchase of
12 replacement vehicles is not an office supplies expense. In addition, DRA did not
13 include the 2011 year recorded expenses as part of the multi-year average to
14 develop its 2013 forecast. Even though the 2011 recorded expense level is lower
15 compared to the other years' expense levels, it does indicate that BVES was
16 capable of conducting its A&G activities in 2011 at that lower level of spending, even
17 with additional A&G employees hired as authorized by the Commission in the prior
18 GRC.

19 **D. External Staff: FERC Accounts 923 Outside Services (Non-** 20 **Labor) and 928 Regulatory Expenses**

21 **1. FERC Account 923 - Outside Services (Non-Labor)**

22 FERC Account 923 expenses include BVES' external and internal resources
23 for outside services, i.e., expenses associated with consulting expenditures for
24 regulatory requirements and legal services.
25

¹¹ Ex. No. BVES-____, Vol. 2, Chapter 6, p. 69.

¹² BVES response to DRA-032-MCL, Q.1

Table 5-6 shows BVES' recorded 2006-2011 level for FERC Account 923 expenses.

Table 5-6
2006-2011 Recorded for FERC Account 923
(in Nominal Dollars)

Description	2006	2007	2008	2009	2010
Total	\$660,075	\$839,256	\$1,343,050	\$949,034	\$795,032

Source: 2006-2010 data from Ex. No. BVES-____, Vol.2, Chapter 6, Page 68

BVES forecasted \$1,019,077 in 2013 for its Outside Services expenses recorded in FERC Account 923, which is \$224,045 higher than 2010 expense level.¹³ BVES based its FERC 923 forecast on the 2006 through 2010 expenses, escalated to 2010 dollars using the outside services escalation rates provided by the CPUC. The expenses stated in 2010 dollars then are averaged to derive the forecast for 2011-2016.¹⁴ The BVES witness states that "One major change from 2008 and 2009 as compared to 2010 has been the decreased dependence upon outside services contracts (FERC Account 923). BVES has internalized the work for certain tasks that were previously performed by outside contractors by adding the eight (8) new staff positions that were approved in the prior GRC."¹⁵ Even though BVES has internalized several tasks, the utility claims that some ongoing regulatory work still requires assistance from outside resources by consultants in the following categories: General Studies & Consulting Work, Customer Projects, Transmission & FERC Related Work, State Regulatory Work & Advice Filings, CAISO & BVPP Work, System Planning & Resource Work, Ongoing Work and Litigation Related Work.

DRA reviewed BVES' work papers, data request responses, historical expenses and 2011 recorded levels and the forecast appear to be reasonable. DRA does not oppose BVES' forecast for TY2013 for Outside Services.

¹³ Ex. No. BVES-____, Vol. 2, Chapter 6, p. 68, Table 6D.

¹⁴ Ex. No. BVES-____, Vol. 2, Chapter 6, p. 73

¹⁵ Ex. No. BVES-____, Vol.2, Chapter 6, p. 69

2. FERC Account 928 - Regulatory Expenses

Table 5-7 shows BVES' recorded 2006-2011 level of FERC Account 928 for Regulatory Expenses.

Table 5-7
2006-2011 Recorded for FERC Account 928
(in Nominal Dollars)

Description	2006	2007	2008	2009	2010	2011 ¹⁶
Total	\$0	\$0	\$0	\$58,333	\$350,000	\$350,000

Source: 2006-2010 data from Ex. No. BVES-____ Vol.2, Chapter 6, p. 68, Table 6C.

BVES forecasted \$585,500¹⁷ in 2013 for its Regulatory Expense for FERC Account 928. BVES based its estimate on outside contracting costs for this application which includes outside consulting and legal costs. BVES states that "BVES anticipates higher costs in this GRC due to the significant increase in complexity with supply cost issues, which were not part of the previous GRC."¹⁸ BVES proposes amortizing the costs for the general rate case application at \$585,500 per year or \$2.342 million over four years in anticipation of a four-year rate case cycle.

Table 5-8 shows BVES' estimate of FERC Account 928 expenses for 2013 associated with this GRC.

Table 5-8
FERC Account 928
GRC Expense by Major Category

FERC Account 928 GRC Application Expense	2013 GRC ¹⁹
Total Cost Legal Services	\$700,000
Total Cost Outside Consulting Services	\$1,616,900
Total BVES & GSWC Employee Travel Expense	\$24,746
Total Cost Notices and Public Hearings	\$400
Total Acct 928 GRC Expense	\$2,342,046

¹⁶ BVES Response to DRA-012-JRW, Tab #2 GSWC Data, April 12, 2012

¹⁷ Ex. No. BVES-____, Volume 2, pg. 68, Table 6D

¹⁸ Ex. No. BVES-____, Vol.2, Chapter 6, pp. 73-74

¹⁹ Ex. No. BVES-____, Volume 2, pg. 74, Table 6F

1 DRA considers regulatory expenses of \$2.342 million to be an excessive
2 burden to BVES customers. BVES' service territory is comprised mainly of
3 residential customers (approximately 21,900 residential and 1,400 commercial,
4 industrial or public-authority customers).²⁰ If the Commission were to adopt BVES'
5 request, its ratepayers will pay approximately \$100 per customer²¹ over the four
6 years of this GRC cycle for the inflated regulatory costs associated with BVES's
7 GRC application to raise rates. In the GRC application, BVES is requesting a base
8 revenue increase of about 6.2%.²² Compared to the increase requested for Test
9 Year 2013, the total regulatory expense is over 58% of the requested amount.²³

10 For the BVES parent company's most recent general rate case, Golden State
11 Water Company ("GSWC") requested \$1.221 million per year amortized over three
12 years for its general rate case cycle in regulatory expenses.²⁴ The GSWC total cost
13 of \$3.664 million is for a water utility with three regions and many districts. BVES, in
14 contrast, has only one operating area. GSWC has 255,562 customers.²⁵ BVES has
15 only 23,300 customers. The GSWC regulatory cost per customer is less than \$5 per
16 year (\$1.221 million / 255,562 = \$4.78). If BVES' request is granted, the regulatory
17 cost will be about \$25 per year (\$100.52 / 4 = \$25.13) per customer. Most of the
18 regulatory costs for GSWC come from in-house staff whereas BVES uses outside
19 consultants for a majority of the costs in its request. BVES has not efficiently
20 controlled the regulatory costs related to this GRC. The amount that BVES
21 proposes to recover in these costs is not commensurate with the service received by
22 customers. The proposed expense is excessive to a reasonable level of expenses

²⁰ Ex. No. BVES-____, Volume 2, pg. 1

²¹ \$2,342,046 / 23,300 customers = \$100.52 per customer

²² Base Rate Revenue increase from \$21.09 million to 22.4 million, per Ex. No. BVES-____, Volume 1, pg. 4

²³ \$2,342,046 / \$4,010,000 = 58.4%

²⁴ A.11-07-017, DRA-16, pg. 4-6, Ins. 14-16

²⁵ A.11-07-017, DRA-16, pg. 1-1, ln. 16

that ratepayers could bear. BVES needs to more efficiently control its expenses for processing its electric rate cases and explore options.

DRA recommends that BVES be allowed to recover a total of \$1,171,024 in regulatory expenses or 50% of the BVES forecast during the utility's four-year rate case cycle. DRA arrived at its recommendation of \$1,171,024 by dividing BVES' \$2,342,046 request²⁶ by two. This translates into \$292,756 per year for each of the four years in the rate case cycle, 2013 through 2016. Under DRA's proposal, the BVES ratepayers would be paying approximately \$12.56 per customer per year²⁷ over the four years of this general rate case cycle. That is a more comparable annual cost per customer to GSWC's \$4.78 after allowing for the smaller number of customers and the use of outside versus in-house staff. DRA concludes that BVES' shareholders, as well as its ratepayers, benefit equally and therefore the general rate case expense should be shared equally between shareholders and ratepayers. DRA recommends that ratepayers fund 50% of BVES request and shareholders fund 50% of the general rate case cost because they also derive benefits from this expense.

E. FERC Account 925 - Injuries and Damages (Non-Labor)

Table 5-9 shows BVES' recorded data for FERC Account 925 for 2006 through 2011.

Table 5-9
2006-2011 Recorded for A&G FERC Account 925
(in Nominal Dollars)

Description	2006	2007	2008	2009	2010	2011 ²⁸
Injuries and Damages- Non-Labor Total	\$41,199	\$236,266	\$241,073	\$261,944	\$147,148	\$166,364

Source: 2006-2010 data from Bear Valley Electric Service GRC Workpapers, Support to Vol 2, Results of Operations Chapter 6, p. 68

²⁶ Ex. No. BVES-____, Volume 2, pg. 74, Table 6F

²⁷ \$1,171,024 / 23,300 customers / 4 yrs = \$12.56 per customer per year

²⁸ BVES Response to DRA-012-JRW, Tab#2 GSWC Data, April 12, 2012

Table 5-10 shows DRA's and BVES' FERC Account 925 forecast for TY 2013.

Table 5-10
2013 DRA and BVES Forecast for FERC Account 925
(in Nominal Dollars)

Description	2013
DRA	\$205,723
BVES	\$205,723
BVES>DRA	\$0

BVES arrived at its FERC 925 forecast by adjusting expenses from 2006 to 2010 in 2010 dollars using the outside services escalation rates provided by the CPUC.²⁹ The expenses stated in 2010 dollars were then averaged to derive the forecast for 2011-2016. BVES forecasts \$205,723³⁰ in TY 2013 for Injuries and Damages.

DRA reviewed BVES' work-papers and historical expenses for FERC 925, and accepts BVES' test year forecast.

F. FERC Account 926 - Employee Pension and Benefits

Table 5-11 shows BVES' recorded data for FERC Account 926 for 2006 through 2011.

Table 5-11
2006-2011 Recorded for A&G FERC Account 926
(in Nominal Dollars)

Description	2006	2007	2008	2009	2010	2011 ³¹ Recorded
Employee Pension and Benefits- Labor Total	\$266,498	\$953,571	\$1,064,169	\$1,397,600	\$1,431,936	\$1,247,276

Source: 2006-2010 data from Bear Valley Electric Service GRC Workpapers, Support to Vol 2, Results of Operations Chapter 6, p. 68

²⁹ Ex. No. BVES-____, Vol. 2, Chapter 6, p 74

³⁰ Ex. No. BVES-____, Vol. 2, Chapter 6, p.68 Table 6D

³¹ BVES Response to DRA-012-JRW, April 12, 2012

Table 5-12 shows DRA's and BVES' 2013 forecast for Account 926, as well as the detail of DRA's adjustments to BVES' request.

Table 5-12
DRA's Adjustment for BVES' FERC Account 926 - Labor³²

			BVES	DRA	BVES > DRA
			Annual Cost to BVES		
		# of employ	50	48	2
BVES Annual Cost Per Employ	2011 Cost Per Emp		2013	2013	2013
Medical Insurance June 2011	10959.45946		651,081.08	567,612.00	83,469.08
Dental Insurance June 2011	1087.179487		61,794.87	54,585.00	7,209.87
Vision June 2011	171.0526316		8,684.21	8,337.21	347.00
401 K Match	3240		169,022.78	-	169,022.78
Life Insurance June 2011	192.84		10,031.54	9,630.54	401.00
EAP	25.32		1,317.15	1,264.15	53.00
VEBA and SERP			66,600.00	-	66,600.00
Bonuses and Restricted Stock			96,409.05	-	96,409.05
Defined Contribution Plan			14,100.00	14,100.00	-
Pension	15342.2973		725,540.54	696,519.54	29,021.00
Total			1,804,581.22	1,352,048.44	452,532.78

Pension and Benefits costs include medical insurance, dental insurance, vision insurance, life insurance, and other employee benefits such as 401(k) Investment Incentive Plan, Supplemental Executive Retirement Plan ("SERP"), Pension Plan, Post-retirement medical benefit plan (the "VEBA Plan"), Stock-Based Awards, Annual and Short-Term Incentive Bonus Programs, and a Defined Contribution Plan to name some of BVES's employee benefits. BVES' Pension and Benefits-Labor cost were allocated based on the San Dimas General Office Costs after Commission Decision 07-11-037. After the filing in the GSWC's 2009 general rate case, pension and benefits became a direct assignment to each of GSWC's profit centers, BVES being one of them.

BVES' forecast of \$2,072,227 in 2013 for its Employee Pension and Benefits is a substantial increase of \$640,291 over 2010 recorded expenses of \$1,431,936. BVES based its test year forecast on GSWC's evaluation of pension and benefits costs per employee and applying BVES's forecasted employee count. The costs per BVES employee were forecasted using cost and insurance companies and financial analysis of the pension plan funding requirements to meet the anticipated retirement

³² BVES Response to DRA-010-MCL, Tab Tables 6C and 6D Components, Q3.

1 of employees. BVES states that due to the uncertainty of pension and benefits costs,
2 BVES has requested a two-way balancing account, as a special request in this
3 general rate case, to track the difference between the adopted pension and benefits
4 costs and the actual pension and benefits costs.³³

5 DRA's Pension and Benefits forecast for 2013 is different than BVES's
6 forecast because it proposes adjustments to BVES' Medical and Dental Insurance
7 and adjustments to remove certain benefits that should not be funded by ratepayers.
8 DRA estimated Pension and Benefits costs based on 48 employees³⁴ for the test
9 year 2013. DRA's forecast for Vision Insurance, Employee Assistance Program
10 ("EAP"), Defined Contribution Plan and Pension cost is based on 48 employees for
11 the test year 2013 and these cost adjustments are reflected on Table 5-12. DRA
12 forecasts \$1,352,048 in 2013 for labor and accepts BVES' forecast of \$353,203 for
13 non-labor in this account. Other DRA adjustments are discussed below.

14 **1. Medical and Dental Insurance Cost**

15 BVES' Medical and Dental Insurance costs were provided by Golden State
16 Water Company ("GSWC"). BVES' Medical and Dental Insurance costs per
17 employee were analyzed using insurance escalators. BVES' portfolio analysis
18 provided these escalation rates per year.³⁵ BVES estimated medical and dental
19 insurance costs based on 50 employees for the test year 2013. BVES' medical cost
20 per employee for TY 2013 is forecast to be \$10,959 and dental cost per employee
21 for TY 2013 is forecast to be \$1,087.

³³ DRA addresses this Special Request in Exhibit DRA-11.

³⁴ DRA addresses the request for additional employees in Exhibit DRA-4

³⁵ BVES provided response based on DRA's informal data request by e-mail dated July 13, 2012.

Table 5-13 shows BVES' Insurance Escalation rates used for FERC Account 926 for both Medical and Dental Insurance costs.

Table 5-13
FERC Account 926 - Labor
BVES' Escalation Rates on Medical and Dental Insurance Costs

Description	2011	2012	2013
Medical Insurance	1.000	1.078	1.188
Dental Insurance	1.000	1.050	1.137

Table 5-14 shows BVES's Medical and Dental Insurance costs after applying BVES' Insurance Escalation Rates.

Table 5-14
FERC Account 926 - Labor
BVES' Medical and Dental Insurance costs

Description	2011	2012	2013
Medical Insurance	\$438,378	\$566,799	\$651,081
Dental Insurance	\$ 45,662	\$ 54,785	\$ 61,804
Total	\$484,040	\$621,584	\$712,885

DRA recommends using the medical and dental escalation rates forecast in the First-Quarter 2012 Global Insight Cost Planner.³⁶ DRA estimates medical and dental insurance costs in 2013 based on a BVES employee count of 48.³⁷

Table 5-15 shows Global Insight's Escalation rates used for FERC Account 926 for both Medical and Dental Insurance costs.

Table 5-15
FERC Account 926 - Labor
Global Insight's Escalation Rates for Medical and Dental Insurance Costs

Description	2011	2012	2013
Medical	1.000	1.034	1.079
Dental	1.000	1.024	1.046

Table 5-16 shows DRA's Medical and Dental Insurance costs applying the Global Insight Medical and Dental escalation rates. DRA's forecast for 2013 medical and dental costs is \$90,399 lower than BVES' request.

³⁶ First-Quarter 2012 Global Insight Cost Planner, p. 147, Table A-1

³⁷ DRA addresses the request for additional employees in Exhibit DRA-4

Table 5-16
FERC Account 926 - Labor
DRA's Medical and Dental Insurance costs

Description	2011	2012	2013
Medical Insurance	\$438,378	\$505,990	\$567,612
Dental Insurance	\$ 45,662	\$ 52,195	\$ 54,865
Total	\$484,040	\$558,185	\$622,477

2. 401(k) Investment Incentive Plan

BVES forecasts \$169,023 in 2013 expenses associated with its 401(k) investment plan. BVES' employees have the option to participate in GSWC's 401(k) Investment Incentive Program. The Program provides employees the opportunity to accumulate cash for retirement, on a tax-favored basis. Employees are permitted to defer up to 20% of their salary. GSWC matches employee deferrals on the following basis: 100% of the employee deferral not exceeding 3% of eligible pay, plus 50% of employee deferrals that do not exceed 6% eligible pay.³⁸

BVES' ratepayers are being asked to fund two retirement plans for BVES' employees, both the pension plan, and the 401(k) Investment incentive plan. In addition to this request, BVES asks that ratepayers fund additional postretirement benefits (SERP³⁹ and VEBA⁴⁰), bonuses and restricted stocks, and a defined contribution plan.

Employees hired or rehired on or after January 1, 2011 will not participate in the Pension Plan for future benefit accruals.⁴¹ These employees will participate in a

³⁸ A.11-07-07-017, GSWC 2012 GRC, Testimony of Gladys Farrow, p. 12, 13, July 2011

³⁹ Supplemental Executive Retirement Plan ("SERP") provides additional retirement benefits to officers of GSWC

⁴⁰ Voluntary Employee Beneficiary Association ("VEBA") provides postretirement benefits only to employees hired before February of 1995. Under the VEBA plan, GSWC provides certain eligible employees, and/or their spouses.

⁴¹ A.11-07-07-017, GSWC 2012 GRC, Testimony of Gladys Farrow, p. 5

1 new GSWC Defined Contribution Program once they have worked for GSWC for 30
2 days.⁴²

3 BVES' requests are excessive, particularly at a time when ratepayers are
4 being required to provide increasingly higher contributions to the pension plan. DRA
5 proposes no ratepayer funding for BVES' proposed matching 401(k) Investment
6 Incentive Plan. DRA recommends funding of the 401(k) Investment Incentive Plan
7 only for those employees hired or rehired after January 1, 2011 who do not qualify
8 for the Pension Plan. BVES ratepayers are funding substantial employee benefits
9 over and above employee salaries. Additional ratepayer contributions to a 401(k)
10 Investment Incentive Plan in addition to the pension plan is excessive and should
11 not be included in rates.

12 For the reasons stated above, DRA recommends that the Commission deny
13 BVES' request for \$169,023 in 2013 expenses associated with its 401(k) investment
14 plan.

15 **3. Adjustment of Retirement Benefit Costs ("SERP" and** 16 **"VEBA")**

17 BVES forecasts \$66,600 in 2013 expenses associated with additional
18 retirement benefits for GSWC Officers, the Supplemental Executive Retirement Plan
19 ("SERP") and the postretirement medical benefit plan ("VEBA"). Under the existing
20 VEBA Plan, GSWC provides postretirement benefits only to employees hired before
21 February of 1995. Employees hired subsequent to February 1995 are not entitled to
22 such postretirement benefits. Under the VEBA Plan, GSWC provides certain eligible
23 employees, and/or their spouses, the medical, dental and vision care benefits at or
24 after age 65. Eligible employees retiring at or after age 65, and/or their spouses,
25 receive coverage through a Medicare supplement insurance policy paid for by
26 GSWC subject to an annual cap limit.⁴³

27 In addition to the pension and postretirement benefits, BVES' parent
28 company, GSWC, offers a supplemental executive retirement plan ("SERP") that

⁴² A.11-07-07-017, GSWC 2012 GRC, Testimony of Gladys Farrow, p. 2

⁴³ A.11-07-07-017, GSWC 2012 GRC. Testimony of Gladys Farrow, p. 6

1 provides additional retirement benefits to officers of GSWC by making up benefits,
2 which are limited by Sections 415 and 401(a) (17) of the Internal Revenue Code of
3 1996, as amended, and certain additional benefits.⁴⁴

4 These additional benefit plans, both VEBA and SERP, are targeted to certain
5 employees or executive officers in addition to the benefits provided to all employees.
6 DRA recommends the exclusion of BVES' VEBA and SERP fund as an adjustment
7 to FERC Account 926 for TY 2013. BVES shareholders can provide these additional
8 postretirement benefits to BVES' executives and officers. Therefore, given that
9 ratepayers already contribute the appropriate pension plan contributions required
10 under U.S pension law, it is reasonable that shareholders be required to fund the
11 costs associated with any supplemental executive benefits. BVES' ratepayers
12 should not be required to bear the costs of benefits for executives that exceed what
13 is offered in BVES' regular employee coverage. DRA's approach has been used by
14 Commissions in other jurisdictions. In 2006, the Arizona Corporation Commission
15 rejected such a proposal from Southwest Gas Corporation:

16 "...we believe that the record in this case supports a finding that the
17 provision of additional compensation to Southwest Gas' highest paid
18 employees to remedy a perceived deficiency in retirement benefits
19 relative to the Company's other employees is not a reasonable
20 expense that should be recovered in rates. Without the SERP, the
21 Company's officers still enjoy the same retirement benefits available to
22 any other Southwest Gas employee and the attempt to make these
23 executives "whole" in the sense of allowing a greater percentage of
24 retirement benefits do not meet the test of reasonableness. If the
25 Company wishes to provide additional retirement benefits above the
26 level permitted by IRS regulations applicable to all other employees it
27 may do so at the expense of its shareholders. However, it is not
28 reasonable to place this additional burden to ratepayers."⁴⁵

29
30 The Nevada Public Service Commission reached the same conclusion in a
31 2002 decision in a Nevada Power Company rate case, finding that, "the SERP

⁴⁴ A.11-07-07-017, GSWC Testimony of Gladys Farrow, p. 7

⁴⁵ Arizona Corporation Commission, Decision No. 68484, February 23, 2006

1 should be the responsibility of the shareholders.” (Nevada Public Service
2 Commission, Docket Nos. 01-10001 and 01-10002, March 29, 2002)

3 The Oregon Public Utilities Commission did the same in a 2001 PacifiCorp
4 rate case, stating:

5 “Staff proposes to remove the entire cost of SERP, approximately
6 \$806,000 from the revenue requirement. Staff argues that PacifiCorp’s
7 executives are already well compensated, receiving on average 4.3
8 times the average compensation of non-officers. Further, these
9 executives are already covered by a regular retirement plan, the
10 expense of which is covered in customer rates. Finally, PacifiCorp did
11 not establish that SERP was a necessary expense. The Commission
12 has not allowed recovery of SERP expenses in other utility rate cases.
13 PacifiCorp has not persuaded us that it is necessary to pay SERP to
14 hire and retain executive officers. The SERP costs are not allowed.
15 (Oregon Public Utilities Commission, Order No. 01-787, September 7,
16 2001)

17
18 For the reasons stated above, DRA recommends that the Commission deny
19 BVES’ request for \$66,600 in 2013 expenses associated with its SERP and VEBA
20 Plans.

21 **4. Bonuses and Restricted Stock**

22 BVES forecasts \$96,409 in 2013 expenses associated with bonuses and
23 restricted stock. BVES follows GSWC’s Annual Incentive Bonus Programs. GSWC
24 has two separate annual incentive bonus programs: the Short-Term Incentive
25 Program for Officers and the Short-Term Incentive Program for Managers and
26 Directors.

27 GSWC adopted a performance incentive plan in July 2009 in order to
28 motivate executives who participate in the plan to maximize performance both from
29 a financial and a customer service perspective.⁴⁶ GSWC’s Compensation
30 Committee determines the target aggregate bonus for each executive officer as a
31 percentage of the base salary of each executive officer, which most recently has
32 been: 30% for the president and the chief executive officer, 20% for the senior vice

⁴⁶ A.11-07-07-017, GSWC Testimony of Gladys Farrow, p.13, 14

1 presidents, and 15% for all other executives.⁴⁷ In the Short-Term Incentive Program
2 for Managers and Directors, the plan allows the managers to receive a bonus up to
3 12.5% of their salary, provided that certain measurable outcomes are met: (i) the
4 first being based on group goals that must be achieved enterprise wide in order for a
5 pay-out to be made, and (ii) the second being based on individual goals that will be
6 measured and rewarded on a participant by participant basis.

7 For Restricted Stock, BVES referred to GSWC's Stock-Based Awards as
8 stated in GSWC's GRC testimony prepared by Gladys Farrow which states the
9 following:

10 "GSWC grants stock-based awards to executive officers, managers
11 and directors. Therefore, total direct compensation is defined as salary,
12 bonus and stock ownership through restricted stock or stock
13 options."⁴⁸

14
15 "GSWC adopted the 2000 and 2008 Employee Stock Plans to provide
16 stock-based incentive awards in the form of stock options and
17 restricted stock to employees. The Plans are administered by the
18 Compensation Committee of the Board of Directors. Under the plans,
19 the Compensation Committee has granted two types of equity awards
20 to executive officers, managers and directors: (i) a stock option award
21 and, (ii) a restricted stock unit award. Each award vests over a three-
22 year period."⁴⁹

23 DRA opposes ratepayer funding for Bonuses and Restricted Stock Option
24 awards and recommends disallowance for ratemaking purposes. It is inappropriate
25 for BVES' ratepayers to fund BVES' incentive bonuses and performance-based
26 restricted stock option awards that only benefit a small group of BVES' executive
27 level employees and its shareholders, but provide no direct and/or identifiable
28 benefit to BVES' ratepayers.

⁴⁷ A.11-07-07-017, GSWC Testimony of Gladys Farrow, p.14

⁴⁸ A.11-07-07-017, GSWC GRC Testimony of Gladys Farrow, p. 8

⁴⁹ A.11-07-07-017, GSWC GRC Testimony of Gladys Farrow, p. 9

1 DRA's recommendation of no ratepayer funding is consistent with the
2 Commission's recent decision in SCE's last GRC proceeding. In that decision
3 (D.09-03-025) the Commission stated:⁵⁰

4 "We reject SCE's request to include \$23.304 million in long-term
5 incentives in its 2009 TY forecast.⁵¹ As DRA and TURN note, these
6 incentives have not been included in rates in the past and are closely
7 tied to stock performance of the parent company, Edison International,
8 and, therefore, to non-utility activities. We continue the Commission's
9 existing policy of excluding these amounts from revenue requirement.
10 Furthermore, in light of the current economic situation and the dire
11 financial circumstances many Californians find themselves in, it is
12 reasonable to limit the level of executive compensation ratepayers are
13 responsible for provided such reductions do not result in total
14 compensation levels falling below the amount required to attract and
15 retain employees.

16 For the reasons stated above, DRA recommends that the Commission deny
17 BVES' request for \$96,409 in 2013 expenses associated with bonuses and restricted
18 stock.

19 **G. All Other Accounts (FERC Accounts 930, 931 and FERC**
20 **Account 935) Non-Labor**

21 BVES' category of All Other Accounts consists of FERC Account 930, FERC
22 Account 931 and FERC Account 935. FERC Account 930 expenses include costs
23 associated with advertising activities. FERC Account 931 expenses include costs
24 associated with miscellaneous general expenses related to training, other. FERC
25 Account 935 expenses include costs associated with maintenance of the general
26 plant.

27 BVES stated the following in regards to the forecast for these FERC
28 accounts: "Expenses for All Other Accounts included in this section are increasing;
29 however, at a fairly slow pace, thus reflecting a moderate additional need for office

⁵⁰ Decision 09-03-025, March 12, 2009, pages 134-135

⁵¹ Exhibit SCE-15, p.24

supplies and other expenses incurred to support staff or to inform customers via newspaper notices and mail inserts.”⁵²

Table 5-17 shows the recorded 2006-2010 level of FERC Accounts 930, 931 and 935.

Table 5-17
2006-2010 Recorded Data for - All Other Accounts
FERC Accounts 930, 931 and 935 (in Nominal dollars)

Description	2006	2007	2008	2009	2010
FERC Account 930 Labor	\$1,454	\$279	\$130	\$1,479	\$210
FERC Account 931 Non Labor	\$2,445	\$2,244	\$2,244	\$2,274	\$2,269
FERC Account 935 Non Labor	\$38,003	\$13,259	\$15,418	\$16,612	\$14,596
Total	\$41,902	\$15,782	\$17,792	\$20,365	\$17,075

Source: 2006-2010 data from Bear Valley Electric Service GRC Work papers Set 1, Support to Vol 2, Results of Operations Chapter 6

BVES forecasted a total of \$25,009 in 2013 for All Other Accounts expenses recorded to FERC Accounts, 930, 931 and 935. BVES forecasted costs by adjusting costs to 2010 dollars using the outside services escalation rates from 2006 to 2010 provided by the CPUC. The expenses stated in 2010 then were averaged to derive a forecast of expenses from 2011 to 2016. These expenses were then escalated by the outside services escalators to convert the forecasted values in nominal dollars for 2011 through 2016.⁵³

DRA reviewed BVES’s work-papers and historical expenses for each FERC account within the All Other Accounts category and does not take issue with them. Therefore, DRA accepts BVES’ test year forecast for expenses associated with A&G All Other Accounts.

⁵² Ex.No. BVES-____, Vol.2, Chapter 6, p. 75

⁵³ Ex.No. BVES-____, Vol.2, Chapter 6, p.75